



Join the New Dot Com Boom



The new dot com boom could help you turn your online ventures into cash – but what lessons can we learn from those first dot com entrepreneurs? **Jon Thompson** discovers that it pays to be prudent

It's hard to believe that just five years ago there was a technological gold rush. Perhaps this is because it was so brief. The dot com mania of the mid- to late-1990s enabled a few lucky geeks to buy Ferraris with their sudden fortunes, but it wasn't long before the bubble burst and the cars, houses and cool toys had to go back.

'Dot com' was the name given to those companies that existed solely as websites, rather than having a physical presence. Any such company worth its salt had to have a URL that ended in '.com', hence the dot com label. Sadly, the original dot com boom ended in bankruptcy for many. But it wasn't all failure as it heralded the birth of a few success stories.

Now there is talk of a new dot com boom. Evidence suggests conditions are ripening to the point where it is possible to make a good living on the web if not an overnight fortune. However, there are pitfalls to be avoided. To consider these fully, we need to look at what went wrong first time round.

The late 1990s saw a boom in heavily backed internet-based companies, the founders of which hoped to repeat the spectacular success of Marc Andreessen's Netscape and Jeff Bezos' Amazon.com. They began to beat a path to venture capital firms, who in turn started gambling larger amounts on increasingly untested propositions.

JOINING THE DOT COMS

The underlying idea that powered the dot com boom was a simple one. You attracted initial venture capital to hire staff and set up a website, and then tried to attract visitors via media campaigns, which is where the bulk of the money tended to go. Having multitudes of visitors meant they were likely to buy your goods. Once it was up and running, you either sold your company or floated it on the NASDAQ stock exchange to generate more finance for expansion, making you, your staff and your original investors seriously rich in the process.

Behind this reasoning is Metcalfe's Law. Robert Metcalfe of Ethernet company 3Com found that adding more nodes to a network increased its usefulness exponentially. Think of a phone network. One phone is useless because there's no-one else to call. But as more people get them, their usefulness starts to increase. Metcalfe said the usefulness of a network was roughly equal to the number of nodes squared.

The dot com world believed Metcalfe's Law was applicable to its own success. If a few people registered at a site, it wasn't very useful. But if millions visited, the thinking went, then it must be very useful, and therefore very valuable. Hence the love of advertising that characterised the dot com boom. During the 1999 Superbowl final, for instance, 17 internet companies paid \$2 million (around £1.1 million) each for 30-second television advertisements. A company that becomes valuable because people visit its website was a radical concept, but a very attractive one.

MORE MONEY THAN SENSE

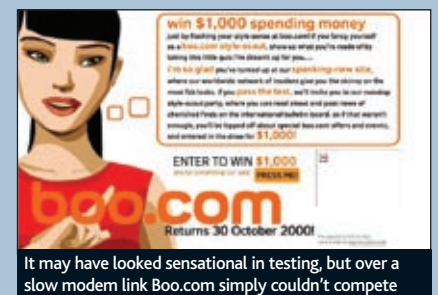
Think you can get rich quick online? Spare a thought for those who were less fortunate

The online trading boom looks more sustainable and achievable in the long term than it did the first time around. The last tech boom saw the launch of dozens of internet-based companies that fell by the wayside, unable to turn a profit. Sometimes the ideas were the problem, but sometimes it was simply that no-one could tell what companies sold. It was impossible to tell from their names, and visiting their websites to find out could also be a frustrating experience.

In 1999, *Fortune* magazine named Boo.com "one of Europe's coolest companies", but within six months London-based Boo had collapsed owing \$180 million (around £100m). Boo was an online designer goods store, with an impressive range of clothing and accessories for the trendy 20-something. One of the reasons often cited as a direct cause for Boo's demise was the usability of its website. There was over-reliance on JavaScript and Flash to create 3D representations of both its wares and Miss Boo, the site's virtual

shopping assistant. Instead of waiting for the site to load, people gave up and went elsewhere.

Over-complicated websites weren't the only thing standing in the way of some dot coms. New York-based Kozmo.com, for instance, promised to deliver anything from a cup of coffee to DVDs within one hour of ordering. It operated in several cities across the continental United States. The only problem was that it didn't charge for most of its services. Kozmo had decided to deliver small items free of charge to build brand recognition. People realised that this meant someone would bring you a coffee and a bagel at their own expense rather than you having to leave your desk and cross the street. Perhaps as an indication of the mood at the time, despite analysts pointing out that this was an unworkable business plan, Kozmo raised an incredible \$280 million (around £160 million) in venture capital, including \$60 million (around £34 million) from Amazon.com. Of this total, \$150 million (around £85 million) was to go on a



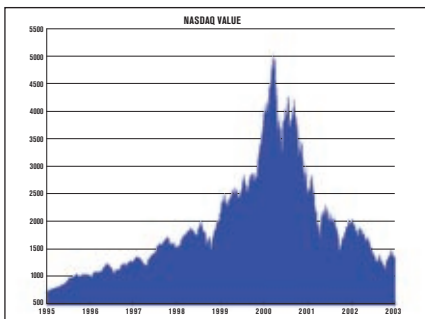
marketing deal with Starbucks. At the time of its collapse and the layoff of 1,100 staff in March 2001, Kozmo had parted with the first \$15 million (£8.5 million) of the deal, even though its delivery policy meant it would never show a profit.

For an example of how short-lived an online venture could be during the last dot com boom, consider the fortunes of UK health and beauty product company ClickMango.com. This was fronted by actress Joanna Lumley, an investor in the venture, and sold largely to females. The company launched in a blaze of publicity in April 2000. By July of that year it was gone.



The idea of value without profit ran quickly through Silicon Valley and eventually around the world. As more companies floated to raise increasingly large chunks of capital (there were 497 dot coms floated in 1999 alone), investors began panic-buying shares to cash in, and prices shot up. NASDAQ's average rose over 500 per cent in five years and peaked during trading on Friday 10th March 2000 at 5132.52.

But by the following Monday, the party was over. The index fell 2.8 per cent in one day. The only trickle of income many sites received was from the advertising space they sold to other e-businesses, and not from sales. With the realisation that profits would never materialise, investors got cold feet and started panic-selling shares. Stock values fell the world over and bankruptcies began. Two-and-a-half years later, in October 2002, the NASDAQ index had bottomed out after losing a full 78 per cent. Paper millionaires became real-life paupers. In a last attempt to claw back losses, some dot com owners started selling their customer lists, something many of them had said they would never do. To add to the problem,



As the dot com boom began in the late 1990s, the NASDAQ stock exchange for technology companies soared, but just as quickly recorded the inevitable bust

the US Federal Reserve increased interest rates five times during 1999 and 2000 to cool an overheating American economy.

The internet's infrastructure also felt the bubble burst. Having invested in the creation of high-speed links to take advantage of web usage levels that we are only just seeing now, some bandwidth and equipment providers went out of business when supply outstripped demand. Bad accounting practice also played a part. A good example is the bankruptcy of telecommunications giant Worldcom, one of whose executives famously claimed that web use doubled every 100 days. An internal audit in June 2002 showed that Worldcom had overstated its worth by \$3.8 billion (around £2.1 billion). Amid a mounting crisis, the company filed for bankruptcy protection the following month. By August of that year, auditors had discovered a history of such errors stretching back to 1999 and totalling a further \$3.3 billion (around £1.9 billion). It's now believed that Worldcom managed to misrepresent its true value by a grand total of \$12 billion (around £6.8 billion).

Companies such as Amazon, Google, eBay and the UK's own LastMinute.com all weathered the crash with business plans that called for calm, long-term investment. These companies acknowledged that profits would not materialise overnight. For example, Amazon was founded in 1994 but took until the end of 2002 to turn a meagre profit. By last year, this profit had risen to \$35.3 million (around £20 million). Google only floated on the NASDAQ earlier this year, but it dwarfed flotations made during the boom, raising roughly \$1.7 billion (around £1 billion) in initial trading alone.

TALKING SHOP

One reason for the recent new-found sense of optimism is that we've developed a healthy appetite for online shopping. Widespread broadband take-

up makes it far more convenient than at the height of the last boom. Dot com advertising revenue stands at a record \$9.6 billion (around £5.4 billion) and UK-based QuickQuid.com has found that 84 per cent of UK internet users have shopped online at least once. It seems like things are looking up once more.

Now that dot coms no longer have to invent the future, start-up costs are a tenth of what they were during the last boom, according to venture capital company TGP Ventures. For those wishing to start small, there are also near-zero cost options. Some sites explicitly play host to small or one-man businesses, which, while not making millionaires of their owners overnight, provide growing incomes and also drastically reduce the effort involved in getting a good idea off the ground safely.

While there's no golden formula for success, there are a few things to bear in mind when setting up a successful dot com. The UK government is very keen on sustainable e-commerce. Free advice on all aspects of business life is at hand in the form of the DTT's Business Link network of local advisors (www.businesslink.gov.uk). Independent sites such as Startups.co.uk (<http://startups.co.uk>) also offer advice for the budding e-entrepreneur and play host to supportive online communities.

It sounds obvious, but you also need to have a clear idea of what you want to sell. "Something you like doing or collecting is good," said Nick Malin, an eBay trader from South Manchester. "If you don't care about what it is you're selling, you're not likely to describe it as desirably, and that translates into people thinking suspiciously about your listing."

TRADING PLACES

Once you have some starting capital to buy stock, a good idea of what you want to sell and a catchy name for your enterprise, the next step is to decide whether you'll go it alone and create your own

SUCCESS STORY

If you need inspiration, take some tips from this successful dot com entrepreneur

What does it take to turn an idea into a successful online business? To find out, we talked to Carl Fraser of Kent-based MagicTricks.co.uk. We asked him how it all began.

"I launched the site in 1999 after seeing David Blaine on TV in this country," said Fraser. "After the programme, I went to a magic discussion newsgroup where it was being discussed. It seemed that all the items David Blaine used were available only from the US. I had a look round and couldn't find any other decent UK magic dealers, so set up the site."

Other than a good idea, a good domain name was also essential for Fraser. "We were very lucky to get such a strong domain name. This has really helped us with branding and search engine rankings," he said.

Due to limited funds, programming the site had to be done cheaply. "Our initial investment in stock was around £300. I have some computer programming experience so programmed the site myself, saving a lot on startup costs."

Once an e-business is up and running, the temptation must be to consolidate one's position

by diversifying into other areas. Do subsequent sites become easier or do they all pose unique problems? "Over the past year, we've repeated our business model for several other sites in other areas," admitted Fraser. "MagicTricks.co.uk is heavily automated, and we've been able to easily port this to our other sites. It certainly does get easier once the first site is launched. We've learnt many lessons along the way with MagicTricks.co.uk, so a new site can be up and running relatively easily."

We asked Fraser how set-up costs nowadays compared with those in 1999. He replied: "Costs in setting up a new site have definitely come right down. A couple of examples of this are hosting charges and shopping basket software. Decent solutions used to be costly for a new venture but you can now get these free of charge, good enough to at least get you going. Although it's got much easier technically to set up a website, ongoing customer support, marketing, brand building and so on are still time consuming and require new skills to be learnt."

So is brand building important? "Many people go through the initial process of setting their sites



Inspired by watching David Blaine on TV, Carl Fraser launched MagicTricks, a successful online business

up, but then don't follow up with the promotion required to ensure people actually visit them. While the internet has been great for getting new businesses like ours off the ground, far too many people think they've missed the boat. I would strongly disagree with this. All our sites have been in profit within three months of launch, and are in very diverse business areas."

Finally, we asked Fraser, from the customer's perspective is it safe to buy online? "As a consumer, the internet is a very secure way of ordering," he replied. "It's far more secure than giving your credit card details over the phone or through the post. Credit card companies give a great deal of protection to their consumers."



website or use an auction site. For example, Nick Malin's uncle, Bob Swain, sells his handmade walking sticks online. A retired mill worker and a lifelong walker, he finds online auctions match his rate of production. "I sell them at craft fairs, but I can only make so many sticks, so auctioning them off as I finish them [is] a good way of selling them," he says. But while auction sites can offer a market for small craftsmen, for businesses intending to expand, it's wise to think about the future too.

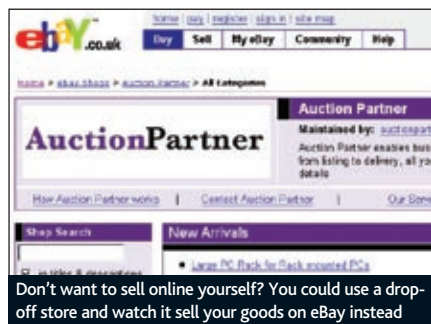
The use of auction sites such as eBay is considered a very useful introduction to online trading and a transition stage on the way to becoming a fully fledged online business. "To a newcomer, it can be a very cheap way of starting to trade online," said Carl Fraser of MagicTricks.co.uk (see the box, below left). "I know of many people who make a very good living off of the online auction sites." But, he continued, "while price is a factor for us, we'd rather build strong relationships with our customers and I think this is very difficult to do via an auction site".

DELIVERING THE GOODS

You also need to think carefully about how to get your items to the buyer. "If you live out in the country and have to travel by bus to the nearest post office, unless you can convince buyers to collect their goods, you're not going to be selling heavy items," Nick Malin warned. If your shipments need special handling because of bulk, weight or fragility, it's worth using a courier. This also gives protection from very valuable items becoming lost in the post.

A new phenomenon springing up in support of online auction houses is the drop-off store. The way drop-off shops work is simple. First you take your item for a free appraisal. Some shops such as Auction Partner (www.auction-partner.co.uk) will collect it for a fee. If the store believes your item will sell in an online auction, it photographs it and writes an enticing description before emailing you a link to watch the bidding. Once sold, a fee is taken and you are sent the rest. Depending on which shop you use, this split can be as high as 65/35 in your favour. This includes everything you would have to do yourself to sell the item. If it doesn't sell, some stores give you the choice of collecting the item or having them give it to charity, so it's worth looking at this aspect of the service. One shop chain that gives you a choice of charity is Auction Helper (www.auctionhelper.co.uk).

Warehousing plays an important part in your business, because it determines the number of orders you can fulfil at a time. Underestimating demand, as Sinclair Research did in the 1980s with its ZX range of mail order computers, can lead to a lot of unhappy customers. Some Sinclair Research customers waited several months for their kits.



ANY GIVEN TUESDAY

How would-be money-makers garnered startup capital by meeting like-minded people

During the last dot com boom, one of the ways would-be British entrepreneurs found capital to start up their ventures was by visiting First Tuesday meetings. These were co-founded by investment bankers Julie Meyer and Mark Davies in 1998. First Tuesday takes its name from the first meeting of eager e-business hopefuls and moneymen looking for high-tech investment opportunities on the first Tuesday in October 1998, at Soho's Alphabet Bar.

At the first meeting, Martha Lane Fox and Brent Hoberman of LastMinute.com gave a talk about how their business formed and addressed some of the problems of trading online. The founders decided to hold more meetings, and First Tuesday was born. By spring 1999, the press had caught wind of the events and the word-of-mouth way the phenomenon had grown. The rate at which new high-tech companies formed undoubtedly increased in part because of these events and the publicity that began to circulate.

By 2000, First Tuesday had gone from meetings between a few well-connected friends to a company in its own right. It had also established itself in 70 cities across the world. Not only was it possible to connect ideas with funding, but you could also use the meetings to hire talented or specialised staff for ventures.



After weathering the dot com boom and bust, First Tuesday is still bringing together ideas and money

With hindsight, it was clear that unrestricted access to capital meant some unworkable ideas came to life only to crash soon after. Some, however, are still with us and doing well. First Tuesday weathered the dot com crash, but predicting it turned out to be hard, even for founder Meyer. "It's not that I didn't think it was coming," she reflects. "[But] you never see the shape of things until they happen."

Today First Tuesday operates in 28 cities across 15 countries and has 41,000 members worldwide. It holds six different forms of meeting, including matchmaking conferences in which entrepreneurs present their ideas to prospective investors and attempt to gain funding for their venture.

Likewise, a regular supply of goods is vital. Some online stores batch up customer orders and place one larger order with their supplier to get a better price, but increased lead times are a factor. If your supplier suddenly cannot supply you, you can't ship out your orders and customers may well shop elsewhere next time.

SHOW ME THE MONEY

Customers need to be certain that when they buy from you, their payment details will be secure. Nowadays this means accepting credit cards or PayPal. Payment by both methods involves a third-party payment-processing company that performs the transaction. Though the implementation details differ between processing companies, each provides the business with a method by which it can indicate the name of the item and the price it wishes to charge. Control passes to the processing company's secure servers and the customer enters their credit card details and transaction authorisation via an encrypted link. This also works for subscription sites, because the transaction can repeat at regular intervals until cancelled by the customer.

The processing company makes a charge on the customer's credit card, keeps a small percentage as a handling fee and passes the rest to the seller. This last step is one that catches out some would-be online traders. Most major internet payment processing companies process payments only for businesses with 'merchant' accounts – that is, proper business bank accounts. These can be costly to run if you're simply test-marketing an idea to see if it sells, or you have very little starting capital. However, PayPal also transfers payments into a personal bank account. You have to register for this service using a mechanism that transfers a couple

of small amounts of money into your nominated account. Once you confirm these amounts, you're ready to trade. PayPal takes a flat rate of 3.3 per cent every time someone buys your goods.

TAX FOR NOTHING

If you make a profit from selling online, the temptation is to rush out and spend the money. Bear in mind, however, that it is taxable. If you don't already receive a self-assessment tax return form, you need to inform your local tax office that you need one. Depending on your total income, including your day job, you could be taxed by anything up to 40 per cent. This sounds steep, but not declaring extra income can have serious consequences. The Inland Revenue takes tax avoidance very seriously. Jealous colleagues, neighbours and even friends sometimes tip them off, so it pays to be honest.

Filling in a tax return is simple, but if you don't keep proper accounts you can quickly become muddled. Because of this, many people prefer to employ an accountant. If you decide to use one, shopping around and going on personal recommendations is a sensible idea, and some accountants are able to provide you with a wealth of business tips.

While it clearly promoted internet use, the last dot com boom was powered by short-term greed. Maybe conditions are ripening for another cycle, but this time it is one powered by sustainable growth. Small online traders can make a good living from the same designer goods that failed so spectacularly to sell at the height of the last boom. But rather than making millionaires of a few lucky individuals overnight, the next boom is more likely to turn us into a nation of e-shopkeepers. **CS**